Compliments of The First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

1812 THE NATIONAL CITY BANK OF NEW YORK 1928

Economic Conditions
Governmental Finance
United States Securities

New York, June, 1928

General Business Conditions

THERE has been no great change in the business situation during the past month, but fundamental conditions have continued generally favorable and confidence has become stronger. Manufacturing and distribution, though apparently not up to the highest levels of some times past, are nevertheless in large volume. While all lines are not participating equally, this is a normal condition which does not imply that anything is fundamentally wrong with business.

Employment reports and railway statistics have reflected seasonal improvement in industrial activity and the movement of goods, but still make a disappointing showing compared with a year ago. It should be remembered, however, that comparisons thus far have been with the most active period of last year, and the important consideration is not the status at the moment but the trend, which this year gives evidence of being forward, whereas last year it was steadily downward after the first quarter. For this reason it is to be expected that comparative statistics will make a better showing as the year advances.

The money market has continued to tighten during the past month and present indications are that the level of rates during the last half of the year will rule substantially higher than a year ago. The large absorption of credit in the security markets, continued exports of gold, and the firm money policy of the Federal Reserve Banks as expressed in higher rediscount rates and in open market operations have combined to put money up, and there is little prospect of easing so long as these influences prevail, particularly as the season of heaviest commercial and agricultural requirements lies not far ahead. With the security market, however, accounting for the major share of the recent credit expansion, it is clear that much will depend upon developments in that quarter.

Handicaps to Business

Adverse weather conditions undoubtedly have been one cause of backwardness in business, as rain and cold weather have retarded retail buying in many localities and delayed agricultural work, particularly in the South where the cotton crop has a late start. Generally speaking, however, the crop outlook aside from cotton is good, corn seeding having been largely completed, while wheat prospects west of the Mississippi are excellent. The following extract from a letter from a prominent business man of Dallas, Texas, paints a pleasing picture of crop conditions in the Southwest:

> New Mexico, Texas, Oklahoma and Kansas will produce this year one hundred million bushels more wheat than they did last year and several million bushels more oats—but just how much I do not know. In other words, the Southwest is going to be strictly in it this Summer on wheat production and it looks as though we are going to have a large volume of business out of the flour mills as well as the elevators.

East of the Mississippi, wheat has not done so well and abandonment has been heavy, but as this is a region of diversified farming, losses on wheat involve only a minor part of the farm income, and may be compensated by other operations. With practically all farm products now bringing good prices agricultural prospects are shaping up in a manner distinctly promising for general business.

Aside from weather conditions the chief jarring note has been the huge amount of speculation in the stock market. Regardless of what may be the long time trend of investment values, speculation on the scale current during recent weeks can only be deplored as unsound and hurtful to the best interests of the country. Visions of easily made riches are tending to destroy the usual habits of saving, and millions of dollars are being put into the market by many who can ill afford the risks they are taking. Never before has stock speculation involved so many people of all classes, and one hears the frequent complaint that one trouble with business is that businessmen are paying too much attention to the stock market and not enough to the conduct of their own establishments. All this can only mean the storing up trouble for some future day, and the danger is that with so widespread a public participation in the market, a decline, which is

always a possibility after so prolonged an advance, would affect general consumer purchasing power and slow up the distribution of commodities.

Fundamentals Continue Sound

Barring the situation in the stock market, the condition of credit and business is unusually sound, which should be the best possible reason for expecting business to surmount its handicaps. Inventories are low, and commercial indebtedness is small considering the large volume of business being done. Commodity prices are displaying a firmer tendency, which is evidence of a better demand for goods, and encourages more confident forward buying.

Industrially, the principal developments of the month include a tapering off of steel production following the record breaking output of the first four months, the establishment of new high records of employment at automobile centers for this season of the year, as expansion of Ford operations has offset the seasonal slowing down of other makers, and the publication of figures showing a new high total of building and engineering contracts awarded during April.

The copper situation is showing marked improvement, reflecting a good demand and a more regulated output. Domestic buyers have been coming into the market more freely, while the foreign demand has been very heavy, reports indicating that May sales by the copper exporters association may prove to be the heaviest of any month since its organization a year and a half ago. Responding to a strong statistical position and a generally more favorable outlook, prices of the metal advanced one-half cent in May to 14.75 cents, the highest since 1925 and a level 2.25 cents above the low point of last Summer.

Zinc prices have been firming along with copper, prices reaching 6.12½ cents on May 29, compared with 5.42½ cents at the February-March low point. Lead has likewise been a shade higher. Tin is still quoted practically at bottom. Silver has been strong, rising from approximately 57½ cents (San Francisco price) at the beginning of April to around 62½ cents by the end of May, due to abnormal demands from China caused by more acute internal disorder.

The oil outlook is regarded more favorably, due to restriction of production and record breaking consumption of gasoline. Reflecting largely restriction agreements in force in various fields, average daily production of crude oil has been declining and in the week of May 26 amounted to 2,351,000 barrels, against 2,498,000 barrels in the corresponding week a year ago, and 2,586,000 barrels in the record week of July 30, 1927. Of particular importance has been the decline in the Seminole field where over-production has been especially serious during the past year because of the high gasoline content of the oil. With large stocks of crude oil still on hand and large potential supplies in the ground, the oil industry admittedly is not yet out of the woods, but the decrease in uneconomic production, together with the healthier gasoline situation resulting from a reduction in stocks and high consumption, has been encouraging. Gasoline prices have been firmer this Spring, and oil securities in better demand.

Farm implement makers are busy and conditions in the agricultural sections point to another good year for that industry.

Prospects for the meat packers are bright, due to the advance in prices of hogs and pork products which is enabling packers to realize profits on low cost inventories accumulated during the winter packing season. Thus the situation is the reverse of that of a year ago when a decline in values after the packing season caused heavy losses. Cattle operations have not been profitable, due to high prices, which have curtailed consumption, but any losses here will be more than made up by the better pork business. By-product business in fertilizer and leather has been very satisfactory. Tanners generally are in the best shape in years, with inventories of raw material and finished products at approximately the lowest since the war.

Rubber prices, after a precipitate drop of 21½ cents a pound from 38 cents at the end of January to a low of 16½ cents in April, on removal of Stevenson Act restrictions as of November 1 next, have rallied to above 19 cents, and the view is held by many that prices have touched bottom. In an analysis of the rubber situation dated May 25, F. R. Henderson Corporation of New York, members of the Rubber Exchange, suggest the possibility that some scarcity may be found to exist. We quote as follows:

> It (the analysis) goes to show the possibility of a scarcity in the next few months, and this undoubtedly accounts for the gradual accumulation of rubber on the part of outside interests. We still believe purchases at the present level will prove profitable.

The decline in rubber prices and announcement by leading mail order houses of reductions of 5 to 15 per cent in tire prices have led to some speculation as to the possibility of a general reduction in tire prices in the near future, but manufacturers deny that cuts can be made until their high priced inventories can be worked off. Mention is in order here of the formation within the last month of the Rubber Institute by leading manufacturers for the purpose of improving conditions in the industry along lines pursued by similar organizations recently formed in the cotton, wool, sugar, and various other industries.

Reference should be made also to the improved outlook in the ship-building industry,

resulting from the enactment by Congress of the Jones-White bill providing for Government loans at low rates of interest to promote construction of American ships in American shipyards. Due to the competition of foreign shipping, American shipbuilding has been in a state of severe depression, and some well known firms long in the business have passed out of the picture in recent years. This new measure, however, which aims to lessen the existing differences in ship construction costs here and abroad, should aid materially in its revival.

The coal and textile industries continue the chief unsatisfactory spots in the business situation. The former is in decided depression. Conditions in cotton goods have not improved much despite curtailment in recent months which apparently has not yet gone far enough in some lines. Considerable business is going on every day, but much of it is said to be on an unprofitable basis. With cotton above 20 cents a pound experience has shown it to be hard to make money in the spinning business. The woolen industry is also having its difficulties, although in some lines business is good and some concerns are making money. Rayon continues an outstanding exception to the general trend of textiles, being still in the stage of rapid expansion, while silk goods appear to have good prospects for Fall.

Corporation Profits

One particular cause of a better feeling about business generally has been the unexpectedly favorable showing for business profits revealed by many of the first quarter reports. As usual, the first reports to come out have tended to be the best, so that later comparisons do not look as good as the first ones, but even so the results are encouraging. Of 208 miscellaneous industrial companies which have published reports, 116 went ahead of last year and 92 fell behind, with the aggregate earnings up 5.7 per cent. Even with the overshadowing totals of the General Motors Corporation and United States Steel excluded there was a gain of 1.8 per cent, which is good in view of the heavy losses sustained in the oil group and the fact that the first quarter of last year was the best of the year. Considering that comparisons henceforward will be with the poorer and poorer figures of declining business a year ago, expectations that final 1928 earnings will prove to be much better than those of 1927 seem justified.

Reflecting decreased traffic, net operating income of Class 1 railways during the first quarter was 3.6 per cent lower than in the corresponding quarter of a year ago, while public utilities generally showed increased earnings.

Money and Banking

The discount rate of the Federal Reserve Bank of New York was advanced to 4½ per cent on May 18, and all of the Reserve banks now have this rate, excepting the banks of Kansas City and San Francisco.

The tendency to credit expansion, which has been under discussion from month to month, continued in May, but the volume of bank credit was highest at the middle of the month. Reporting member banks showed an increase of loans and investments from April 25 to May 16 of approximately $250,000,000 and then as a result of a stock market reaction a decline to May 23 of about $50,000,000. Loans on stocks and bonds increased $140,000,000 and then declined $57,000,000; other loans increased $60,000,000 and then declined $14,000,000.

In view of the fact that gold reserves were lowered about $100,000,000 by exports, it is obvious that recourse was again had to the Federal Reserve banks. Total discounts of the Reserve banks increased from $709,073,000 on April 25 to $943,791,000 on May 29, or by $234,000,000, but counteracting this influence these banks reduced their holdings of Government securities and open market purchases by $147,000,000, hence the net increase of reserve credit outstanding was only about $87,000,000. Notwithstanding the rediscounts, gold exports caused a net loss in member bank reserves of $60,000,000, and money rates strengthened decidedly.

The renewal rate for call money was as low as 5 per cent only on the 3rd, 4th and 7th of the month, was 5½ per cent on eight days and 6 per cent on ten days. The highest rate touched was 6½ per cent, on the 28th, which had not been reached on the exchange since 1921. Time loans on collateral security stiffened to 5½ per cent, or 1 per cent higher than ruling rates two months ago. Responding to the advance of the Reserve bank rate, bankers' acceptances and commercial paper moved up ¼ per cent and even customers' loans felt the influence of the prevailing strength.

Gold Exports

The continued outflow of gold was the leading factor in the situation, net exports in the month being $81,661,000, and since January 1, $292,000,000. Of the latter, however, a considerable amount, not definitely reported, had been previously earmarked. The in-and-out movement by months since the beginning of 1928 has been as follows:

1928	Imports	Exports	Net
January	$38,320,000	$52,086,000	$13,766,000
February	14,685,000	25,776,000	11,091,000
March	2,683,000	97,536,000	94,853,000
April	5,319,000	96,469,000	91,150,000
May	629,000	82,290,000	81,661,000
January-May	$61,636,000	$354,157,000	$292,521,000

Of the foregoing exports approximately $317,600,000 went to six countries, with the remainder scattering. The six leading recipients and the amounts to each were as follows:

France	$165,000,000
Great Britain	22,465,000
Germany	26,930,000
Argentina	68,400,000
Brazil	21,984,000
Uruguay	12,000,000
	$316,779,000

The big outward movement began in September of last year, and to the end of December amounted to $168,000,000 gross or $140,000,000 net. In the nine months the net movement has been approximately $433,000,000, of which over $200,000,000 has gone to South America.

The net takings by Argentina from all sources in the calendar year 1927 and the first quarter of 1928 were $157,000,000, according to the official statistics of that country, and $15,200,000 has been added by shipments from New York in the last two months. Of this great inflow $40,000,000 is accounted for by a Government loan in this market last year, but the remainder apparently has been due to the trade balance created by the 1926-27 and the 1927-28 crop, now moving. Wheat and linseed begin to be marketed in December, corn in March. The crops this year are good, although the corn yield will not be up to the record yield of last year. Money has become very easy in Buenos Aires, debts have been liquidated to a great extent, and merchandise imports are now increasing, hence it is improbable that the country will continue to take gold in large amounts. Low interest rates and general prosperity will promote investments and liberal spending, thus increasing payments abroad. Good prices for wool and hides are mainly responsible for the gold movement to Uruguay. In the case of Brazil, government borrowing for currency stabilization has been the principal factor. The movement to South America is not expected to go much farther.

The movement to Europe cannot be so easily estimated, for Europe has great capacity for the use of credit. Economic conditions there are steadily improving and confidence is growing, as evidenced by speculative activity on the stock exchanges. It is well known that Europe has been interested in a considerable extent in Wall Street, and doubtless has important profits to its credit. Now that things are looking so much better over there, it would not be surprising if some of these funds were withdrawn for investment at home. The Reichsbank discount rate is still 7 per cent, and capital and credit are very much in demand over the greater part of Europe. Norway and Greece have definitely restored the gold standard in the past month. Rumania is understood to be contemplating similar action with the aid of Paris.

France is strong in gold, and ultimately will become again a lending nation. Indeed, leaving interallied debts out of the account, she undoubtedly holds a creditor position today. At the moment she is facing the task of re-establishing her monetary system on a gold basis. She still has large holdings here, and may wish to draw on them.

The Shipments to London

Exchange rates have not been favorable to the movement of gold from this country to Europe, but gold has been going, apparently because wanted for special purposes. The recent shipments to London have been made in face of the fact that current interest rates in that market have been decidedly below corresponding rates in New York. Since the movement is not based on ordinary business considerations, it hardly can be expected to go far, unless it is in anticipation of conditions yet undeveloped.

The most plausible explanation of these shipments, aggregating about $20,000,000 in the last month, is that the Bank of England is preparing to take over the outstanding Treasury currency issues, and wishes to strengthen its reserves for this purpose.

The Chancellor of the Exchequer in his budget speech on April 24 announced that this consolidation of currency issues would be effected before the end of the present year, and a bill for this purpose is before Parliament. The terms of the bill apparently do not provide for any increase of the gold reserve. They provide for an increase of the Bank's fiduciary issue, which is that part of the note issues which is made against securities, by a sum approximately equal to the present excess of the combined Treasury and Bank issues over the combined gold reserves. Furthermore, they provide a routine method by which the fiduciary issue may be temporarily increased at any time upon application of the Bank to the Treasury. A representative of the Government, expounding the bill in the House, said that this was not a mere substitute for the "crisis letter" heretofore relied upon, but "a statutory provision intended to be used not reluctantly in a time of crisis but whenever the Government of the Bank felt that the present limit of the fiduciary issue was unduly restrictive." The Chancellor in his budget speech referred to the plan as providing greater elasticity than the old currency system.

Apparently, there is no provision in the bill for compensating the Bank of England, which is a private corporation, for carrying larger holdings of gold than have been maintained heretofore against the two separate currency

issues, but it may be that the Bank in assuming the additional responsibility prefers to establish larger reserves.

The Treasury notes are in 1 pound and 10 shilling denominations, hence their principal use is in retail transactions, and for this reason the redemption liability assumed by the Bank is comparatively small.

In the absence of definite knowledge of the occasion for the sudden outflow to London under existing conditions, it is an impressive fact that the large transactions in this market have not depressed the London rate; on the contrary, the rate stands at practically the highest point of the year, which means the highest point since early in 1915. This indicates a strong market demand for sterling very close to the point at which gold would move at a profit, and suggests that further shipments are not improbable.

In view of the fact that exchange rates usually run against London in the Fall months, this is a more favorable time for effecting the transfer of Treasury issues to the Bank, and for obtaining any additions to the gold reserves that may be contemplated, than the Fall months would be.

Stock Market Borrowings

With the heavy movement of gold and a strong demand for money, the Reserve bank of New York has had a strong position in this money market, but has used its power leniently. The discount rate was raised to 4½ per cent and member demands were met as usual on this basis, but at the same time enough money was taken out of the open market by selling securities to raise current rates on stock exchange collateral to 5½ and 6 per cent.

The increase of brokers' loans since the beginning of the year, which has accompanied great activity in the stock market, together with the three principal sources of the loans is shown by the following figures:

	May 29	April 25	January 4
Loans for own account	$1,219,192,000	$1,200,217,000	$1,511,000,000
For out-of-town banks	1,608,106,000	1,613,640,000	1,371,928,000
For others	1,642,168,000	1,330,529,000	928,000,000
Total	$4,469,466,000	$4,144,386,000	$3,810,928,000

It will be seen that loans of the New York banks for their own account at the latest date, were much smaller than in January, those of out-of-town banks were larger, and the most striking feature of the showing is the increase of other lendings, which are by individuals and corporations.

One explanation of this is to be found in the large amounts of working capital which numerous corporations have raised in recent years by means of security issues, and which by reason of falling commodity prices, diminished inventories and some decline of turnover in the last year have not been fully employed in their own business.

The showing, however, affords some explanation of the increasing volume of loans which has been carrying the market forward, and why the Reserve authorities do not have ready control of the situation.

The aggressive trading element has professed independence of the Reserve authorities, on the general theory that persons who have faith in rising prices will pay higher rates for money than can be paid by trade or industry, and that this willingness will always bring money to the exchanges from somewhere.

There is a basis for this opinion. Credit has great fluidity, and once put into circulation is beyond control by the original lender. The credit pool of the country is not divided into water-tight compartments. A bank customer may borrow to purchase goods or pay a debt, but what the second or third recipient may do with that purchasing power nobody can tell. The credit will circulate until used by somebody to pay a debt.

Furthermore, all banks are not members of the Reserve system, or within the authority of national legislation, and restrictions upon member banks which affect their ability to compete with non-members have a tendency to keep State banks out of the Federal system, and in some instances have prompted national banks to convert into State institutions.

The Senate committee which had the La Follette resolution under advisement held numerous hearings but did not get any light upon the question how to regulate the volume of lending on stocks and bonds. It made a report proposing that the Senate ask the Reserve authorities to recommend legislation which would prevent Reserve credit from being used for this purpose, but the Senate has not acted.

Professor Gustav Cassel, of the University of Stockholm, who has been a leading figure at all the financial conferences which have been held in Europe since the war, has been in this country during the recent weeks and was invited by the Banking and Currency Committee of the House of Representatives to appear before it in Washington. A newspaper report of the incident says:

> Told by Chairman McFadden at the outset of the hearing that the United States was in the throes of abnormal speculative activity on the New York Stock Exchange and asked for an opinion for a remedy, Dr. Cassel contended that "by moral influences there should be a way to check speculation."
>
> He deplored the necessity of the New York Federal Reserve Bank increasing its rediscount rate from 4 to 4½ per cent, because, he said, "it disturbs the whole monetary structure of the world."
>
> Asked by committee members if speculative activities could be curbed by the Federal Reserve banks' increasing discount rates, the Swedish economist admitted the action probably is taken with such a view in mind, but Dr. Cassel said it would be better for the

world banking situation to find some other method to combat speculation. The Federal Reserve system, said Dr. Cassel, in his opinion, should have no other function than that of giving the country a stable monetary standard and the fixing of discount rates.

Attitude of the Reserve Authorities

Mr. W. R. Burgess, Assistant Reserve Agent of the New York Reserve Bank, addressing the New York State Bankers Association last month, referred to the continued absorption of credit for operations in stocks, saying, in part:

The outstanding feature of the credit situation in recent weeks, from the point of view of the Federal Reserve Banks, has been a rapid increase in the total volume of bank credit, which has required an increase in Federal Reserve credit. The facts are that the loans and investments of the reporting member banks, the resources of which are about 40% of all bank resources, have increased $1,000,000,000 in the past ten weeks. This follows an increase of $1,000,000,000 in the preceding six months and represents a rate of increase much more rapid than is required to meet the requirements of agriculture and trade. An analysis of the recent increase shows that about one-third of it is in the category of commercial loans and reflects the recovery of business from the lowest point of last December, but that two-thirds is in loans on stocks and bonds.

In order to increase their loans in this way the member banks have largely increased their borrowing at the Reserve banks and thus large additional amounts of Federal Reserve credit have been put into use. At this point the responsibility of the Federal Reserve System begins.

After recounting how this lending by member banks forced the Reserve banks to release credit, in order to meet regular trade demands, he emphasized the importance of conserving the nation's reserves against future needs. He said:

The Federal Reserve credit reservoir is far from dry. By the chance of economic events we have a huge store of gold which can meet any ordinary need for some years to come. But that hardly constitutes a reason for wasting our reserves in a more rapid increase of credit than the country's trade requires. The economic growth of the country goes on at a vigorous pace, and business and agriculture require each year larger amounts of bank credit and larger banking reserves. In the next few years other countries which are gold-poor are likely, in the ordinary operation of economic laws, to take from us some of our gold. We need to be free to let some of the gold go without restricting the supply of credit for domestic trade. A large reserve supply of credit is an asset which we cannot afford to dissipate by its wasteful use.

He was addressing a body of bankers, and he put the responsibility for the application of Reserve credit up to them, saying:

The responsibility for the continued use of Federal Reserve funds as a basis for rapid increases in the credit volume for uses beyond the normal requirements of agriculture and business, now rests upon the member banks. The Reserve banks have no power to determine the specific uses of credit. They are in this sense, wholesalers, not retailers, of credit.

The decision as to just how credit shall be used rests with the member bank, which is the retailer of credit. We do not have a banking system rigidly controlled from above but, I believe, a democratic system in which each unit has its powers and responsibilities. In the application of this principle the Reserve system always stands ready to lend to member banks at rates to be determined in view of the whole of the credit situation. The power and the responsibility for the detailed employment of these funds rests with the member bank.

The member banks now owe the Federal Reserve System $800,000,000, while at the same time these banks are placing at the service of speculation a larger amount of money than ever before.

One of the weaknesses of democracy is a diffusion of responsibility, and it was diffusion of responsibility in banking which led to the establishment of the Federal Reserve system, with a supply of credit in the hands of the Reserve authorities as a final resource for the banking and business interests.

The Necessity for Control Over Credit

There must be control over credit expansion somewhere or the resources of the Reserve banks will contribute to inflation when the spirit of inflation is rife, with the result that they will be exhausted and unavailable when they are really needed. The purpose of the Reserve act was to create reserves which would not be exhausted in times of general expansion.

The Federal Reserve Act defines the character of the loans which the Reserve banks are authorized to make and names the two classes of collateral which may be received, to-wit, commercial paper and United States Government bonds. The object of the restrictions are well known. It is to prevent the resources of the Reserve banks from being unduly drawn upon for other than commercial purposes and Government financing, and give assurance that there always will be sufficient lending capacity in reserve to care for the needs of industry and trade, the needs of the National Government and any emergency demands for currency which may arise. It is the duty of the Reserve authorities to so conduct the institutions in their charge as accomplish this purpose.

Banking Interests

They are entitled to the cooperation of the member banks, and it is improbable that the latter will deliberately pursue a policy calculated to defeat the policy of the system, and the unmistakable intent of the Act itself.

Furthermore, such a policy on the part of the member banks would deprive themselves of the only means of access to the Reserve banks in the event of real needs. The use of their own eligible collateral to obtain credit at the Reserve banks for the purpose of lending that credit upon ineligible collateral, might be their own undoing in a time of crisis.

The Reserve banks have the responsibility of safeguarding the entire banking and business situation, and the considerations which are bound to weigh heavily with them, and make them cautious about lowering their reserves, are apparent to any thoughtful observer.

In the first place, once credit is released to the member banks and becomes the basis of other credits, it cannot be withdrawn without serious disturbance. The supply in the reservoir is permanently reduced, unless replenished by contraction.

It has been generally recognized that the great additions to the gold stock of this country since the outbreak of the war were due to abnormal conditions in Europe, and that with the recovery of Europe and the general reestablishment of the gold standard over the world, an important portion of this gold inevitably would be redistributed. A very large movement is now under way, and the needs of other countries are such that it is impossible to count upon a return flow.

It is to be considered that, with normal prosperity a constant increase of the supply of credit is required from year to year to finance the growing trade and industry of the country. This demand alone will gradually reduce the surplus reserves of the Reserve system, and with a prospect that we will lose rather than gain gold in our foreign relations, the authorities may be expected to conserve the supply of credit rather than allow it to be drawn upon heedlessly for uses which do not contribute to the strength of the general economic situation.

Stock Market Prices

It will be seen that the level of stock exchange prices is not primarily a factor in the Reserve policy. The essential purpose is to maintain the reserves, for the protection of all interests, those of the holders of stocks included. Undoubtedly it is better for all who have permanent interests in market values that the market shall not be over-stimulated by a lavish use of credit. Sensational advances beget misgivings as well as enthusiasm. The market needs to demonstrate stability rather than ability to go forward in supposed independence of the Reserve authorities.

Much that has been said about the absorption of credit by the Stock Exchange has been ill-considered. The fact is that until recently this absorption has been a stabilizing factor in business affairs, relieving trade and industry of the disturbing influence of superfluous bank credit. The abnormal increase in our gold stock might have caused disastrous inflation if the resulting supply of credit had not been absorbed precisely as happened. Stocks and bonds were lowered in price by the war, and the fall of interest rates since the war has enabled them to make a great rise in the natural readjustment. But now that the movement of gold has turned outward the situation is changed, and we need to have regard for the foundation under the great fabric of credit which has been developed, and to reserve an ample foundation for the growing structure of business credit.

It is evident that Reserve policy has been directed with a desire to avoid drastic action, and it would be a mistake to conclude that the authorities have exhausted their resources to restrain the flow of money into stock operations. They may not be able to do it without raising the cost of money for industrial and commercial purposes, but undoubtedly they will do this if necessary. The advance of the discount rate to 4½ per cent, while affecting commercial rates only slightly, has put the rate upon stock exchange loans up to 5½ and 6 per cent. Even if the stringency may relax somewhat during the summer months, the usual Fall demand for money will support the reserve policy, and a further advance of the discount rate may be expected if stock market demands continue to increase. It remains to be seen whether the market at its present level can stand the steady pressure of high interest rates which the Reserve authorities have it in their power to enforce.

The stock market has had a great rise in the last four years. It may be that the enthusiasts are right who believe that prices have not yet discounted the benefits that will inure from developments yet to come, but the developments themselves will be all the more certain if efforts to realize on them are not carried too far in advance of their actuality. The value of stocks in the long run will depend upon general prosperity and this is what the Reserve authorities are endeavoring to safeguard.

The Bond Market

Trading in bonds during the month of May was exceedingly dull with the price trend downward in response to continued firmness in money rates and abnormal activity in the speculative markets. All types of bonds with the exception of foreign government issues shared in the decline and most groups reached new low levels for the year. New issues generally are being priced on a basis to make them attractive to investors and most offerings of merit during the month have moved quickly from dealers' shelves. If present efforts to curb speculation through control of money rates bear fruit, it is more than likely that liquidation will cause a flow of funds from the stock market into fixed interest bearing securities.

The Dow Jones average for forty listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) declined to a new low for the year. On May 25th the average was 98.22 as compared with 99.00 on April 25th and 99.48, the high for the year. Declines in the various groups were general, although the higher grade issues suffered more than the second grade and speculative types. Many convertible issues fluctuated widely in sympathy with stock price movements, activity on the upside being particularly noticeable in the copper group in response to firmer prices in the metal

shares and to the improved outlook for the industry.

United States Government Securities

The trend of long term Government issues was downward during most of the month and at this time prices are hovering near the lows for the year. The immediate future of prices will depend upon the trend of money rates after June 1st requirements are out of the way and to an extent also upon the action which the Treasury Department may take in meeting its June 15th capital requirements. Banks have been advised by the Federal Reserve that an offer of new Government securities may be expected shortly. No details have yet been received as to the price, interest rate or length of maturity of the new securities which are to be issued to take care of certificates maturing in the middle of the month. It is expected, however, that no permanent long-term financing will be undertaken, nor is it likely that another exchange offer will be made at this time for Third Liberty bonds which mature next September and the refunding of which began early in the year.

Foreign Issues Firm

Although the foreign bond market was quiet during the month, it ignored higher money rates, particularly in the government group, and prices generally held near the high point of the year. Because the yield on prime foreign issues is yet attractive even in competition with higher commercial money rates these issues have naturally shown less sensitiveness to prevailing money firmness. There was a particularly heavy demand for French 7s around 108½ at which price they give a direct return of 6.44 per cent and yield about 6.25 per cent if held to maturity. They are, however, callable at 105. The non-callable French 7½s sold fractionally under their high for the year. German General Electric 6½s with warrants attached reached 126½, against a low for the year of 118¼.

The three leading foreign issues offered during the month were $50,000,000 Commonwealth of Australia External 4½s of 1956 offered at 92½ to yield 5 per cent; $20,000,000 Mortgage Bank of Chile Guaranteed 6s of 1961 offered at 95¾ to yield over 6.30 per cent; and $30,000,000 German Central Bank for Agriculture Secured 6s of 1938 offered at 95½ to yield over 6.62 per cent. Being the fourth issue of the German Agricultural Bank to appear in American markets, this $30,000,000 offering needs no introduction. Acting through German Agricultural Credit organizations, some of which have been in operation for more than a century, the Central Bank extends agricultural credits under a system somewhat similar to the Federal Farm Loan system in the United States. These bonds are direct obligations additionally secured by an equivalent amount of mortgages on productive farm lands on a basis not exceeding 40 per cent of the aggregate assessed value.

The McNary-Haugen Bill

The President vetoed the latest McNary-Haugen bill, as he was expected to do, and an attempt in the Senate to pass it over the veto failed to receive the necessary votes. This ends the measure for the present Congress, and in view of the general improvement in farming conditions it may be doubted that it will appear on the stage at Washington again.

The advocates of the measure have argued that it was constitutional under the power granted to "regulate commerce," but the President does not believe that this power was intended to include regulation of the prices of commodities carried in commerce. In submitting the second veto message he again accompanies it with an opinion from the Attorney General, and the latter sums up an extended discussion as follows:

> I have considered these questions with realization of the grave responsibility involved in passing on the validity of acts of Congress, and with appreciation of the rule that the courts will indulge in every presumption to support the validity of legislation and that no act of Congress will be declared invalid unless plainly so, but nevertheless I feel bound to advise you that the act in question, if approved, would violate the Constitution of the United States, in that legislation having for its main purpose the control of the price of food in the interest of the producer is not authorized by the Constitution; in that if Congress possessed the power to do things attempted by this act it could not delegate it, as it is legislative in character; in that it vests in those not officers or agents of the United States the power and duty of participating in appointments to fill places in the service of the United States; in that it contravenes the provisions of the Constitution against the taking of property without due process of law.

Advocates of the bill have said that the President should not have assumed to judge that the bill was unconstitutional, but should have passed that question on to the Supreme Court. The President, however, is an independent factor in legislation and charged with certain definite responsibilities. Believing that the bill involved a radical departure from the principles upon which the institutions of this country are founded, he could not approve it without stultifying himself.

Political considerations have been urged upon him in the most strenuous manner to induce him to disregard his own convictions regarding the measure, and it is not improbable that the vigorous language of the veto message reflects his reaction to this pressure. His opinion of the bill has been known all the time, and it is known now that warnings of personal unpopularity and of votes against his party might just as well not have been uttered. His courageous action was in harmony with his entire political career.

The Strength of Support

The McNary-Haugen bill in its various forms had been before Congress over five years, and as the most pretentious measure proposing farm relief had gradually gathered a large body of support. Probably much the greater part of this support signified only a sympathetic attitude toward the general proposition that something should be done in behalf of agriculture. The scheme of the bill was so complicated that few persons tried to understand it. A news report of remarks by Senator Robinson, of Arkansas, upon the motion to pass the bill over the veto quotes him as saying that "he conceded that it provided an economic adventure, but inasmuch as it was passed by Congress, there was justification in trying it out." Probably that is fairly representative of the attitude of the majority in Congress which put the bill up to the President. The latter had no mind to give his approval to a measure which its supporters called "an economic adventure" and which he believed to be economic folly.

The second veto was very disappointing to advocates who have believed that the measure was necessary to "save agriculture," and has prompted some hasty and ill-advised comment. There is of course no basis for the idea that opposition to the bill signified antagonism or indifference to the farming interest. It has been generally recognized that the great slump in the prices of farm products in 1920-21 was not accompanied by corresponding reductions in the prices of goods and services which the farmers must buy, and that injustice and hardship resulted from this disruption of normal price relations. If there had been any possible way of promptly restoring the equilibrium it is safe to say that the business class throughout the country would have been in favor of it. The opposition has been due to a firm belief that the proposed legislation would not accomplish that purpose, but would be harmful in many ways.

The Farm Problem

The farm problem has been fundamentally due to the maladjustment which developed between the prices of farm products and the prices of other products. Agricultural development was stimulated by the war, and when peace was restored the production of farm products was found to be excessive. Prices fell in consequence and a readjustment between supply and demand was necessary.

Why did not the law of supply and demand bring down other prices to correspond with the prices of farm products? It is not difficult to answer that question. Nearly all prices have two ingredients, the compensation of capital and the compensation of labor. In the years immediately following the war the price of capital as reflected in interest rates was high, because the demand for new capital exceeded the supply. For four years new supplies had been blown away in the war, and an accumulated demand existed. The situation was illustrated in 1920 by the decline of the prices of government bonds, for which holders had paid 100, to as low a price as 82. Eight and nine per cent were common rates for money for commercial purposes, on names which were not questioned. Then, as capital began to accumulate, and as supplies of bank credit increased by reason of importations of gold, interest rates began to decline, and have declined continually until they are nearly or quite as low as before the war.

Farm mortgage loans are now being made at as low rates as in pre-war years. Bank rates in the last year have been as low as before the war. Capital for the railroads and industries and for general commercial purposes is now available upon terms approximately as favorable as before the war. The great rise in stock and bond prices in recent years has been significant of declining returns upon capital rather than of increasing returns. The earnings of capital and profits of business generally now are no higher than before the war. Thus the services of capital and of business to agriculture are being rendered at compensation no higher than before the war. At present prices for farms and present rates of interest capital charges for beginners in the industry are lower with the prices of products about 50 per cent higher than in 1914.

Somebody will say that railroad charges upon agricultural products are higher, and this is true, but as a rule neither bond interest nor dividends are higher. Ask the stockholders of the Chicago & Northwestern, the late Chicago, Milwaukee & St. Paul, or of other railroad companies which might be named, how they have fared since the war.

The Rise of Wages Made the Farm Problem

The other element in the costs of industrial products, in transportation costs and in distribution costs—labor—has been receiving higher pay, but is there anything to be done about that? The immigration laws have been an important factor in the wage situation, but the farming population is understood to be generally favorable to the restriction of immigration. We do not now mention the immigration laws to raise a question about their policy, but only to say that the policy has been a factor in wages since the war, also in farm costs and in the disparity between the prices of farm products and other products. If this is questioned, the fact remains that the rise of wages caused the maladjustment of prices which has constituted the farm problem since the war.

The indisputable truth is that no element in the cost of what the farmer buys is costing

more now than before the war, exceptmg labor.

Not only is this so, but in practically all lines of production, capital and management have succeeded in accomplishing results which have partially offset the increase of wages. Thus, while railway wages have doubled, railway charges on the average have not, and the same is generally true of industrial products.

It is true that the farmer is a worker, and he complains that he is poorly paid, but he is also a proprietor, and it is as a proprietor that he has suffered. He hires labor, invests in lands and crops and takes the risks of the markets, and in these operations he has come out poorly since the decline of prices in 1920. He has seen the value of his capital investment decline, and this has been one of the most discouraging features of his situation. If his receipts could be analyzed it would be found that he has had more for his labor and less as a proprietor than before the war.

The Field of Government Price-Fixing

The avowed purpose of the McNary-Haugen bill was to raise the compensation of farmers in relation to the compensation of other people. Nothing was said about lowering the compensation of other people, but this was an inseparable part of the proposition, and this conflict of interests is what makes governmental interference impracticable. If bread, meat and clothing are raised in price by the influence of Government operations, wages are reduced in purchasing power as certainly as though they were scaled down directly. There is nothing in the McNary-Haugen bill to prevent wage earners from demanding wage increases sufficient to compensate for the resulting increase in the cost of living, and no reason to doubt that such demands would be made. The plan would be successful only if prices could be raised without the knowledge of consumers, and particularly without their knowledge that the rise was due to the Government. Wages lagged somewhat behind the depreciating currencies of Europe, to the disadvantage of the wage-earners, but the latter were soon alive to the importance of having their wage rates increased.

Think of the controversies in which such a policy would involve the Government! In two of the most important industries, to-wit, coal and cotton goods, wages have been recently undergoing reductions, because of the demoralized state of the industries and the low prices prevailing for the products. How are the proper relations between these products and farm products, or between investments in these industries and investments in farms, or between the compensation of workers in these industries and the compensation of workers on farms, to be determined, except by the free play of economic forces, or as the alternative, the complete regulation of all economic relationships by the Soviet plan?

If this Government is to exercise judgment and authority (through a Board composed of farmers) to raise the prices of common necessaries to the wage-workers, how can it refuse to exercise similar authority over wages when called upon to do so, and where is the stopping place in governmental regulation?

The exchange relations between farm products and other products and services are mainly dependent upon the general wage level, and whatever may have been the causes responsible for the change in these relationships from what they were before the war, there is no reason to think that the McNary-Haugen bill if enacted would have nullified them. Economic forces would have persisted regardless of that law, the immigration law would still be in effect, and insofar as the power of organized labor was a factor, that would remain. Furthermore, if the Government entered upon the general policy of determining what share of the national income each group in the population should have, what reason is there for thinking that the farmers would fare better than the wage-earners? The latter are more numerous than the former, and this will be increasingly the case in the future. Is there any reason for thinking that organized labor is not as alert and effective in political management as organized agriculture?

Two independent influences would tend to defeat the avowed purpose of the McNary-Haugen bill: (1) the organized resistance of the wage-earning class, which has no intention of relinquishing any part of its gains; and (2) the tendency to the expansion of agriculture itself, in case temporary gains were realized. Anything in the nature of a Government guaranty for an industry would of itself tend to make that industry one of low returns. Government bonds yield a lower return than any other class o. securities. Might it not be expected that assumption by the Government of the farm marketing problem, and a general undertaking by the Government to assure good returns, would encourage agricultural expansion—until the scheme broke down?

The Government could not refuse anybody the right to become a farmer, but what a task it would have to assure equality of income even as between the producers of all the different farm products!

The Recovery of Agriculture

It would seem that reflection upon the difficulties likely to develop would convince almost anybody that an undertaking to regulate the exchange value of the various products and services of the American people, or to assure to each and every group in the popula-

tion a satisfactory proportion of the national income, is a task beyond the capacity of the Government.

Does it follow then that no improvement in the conditions affecting agriculture is possible or may be reasonably expected. We do not think so. On the contrary, we believe that recovery is assured under the free play of natural forces, and already is well under way.

The high wage rates prevailing have stimulated invention and the development of machine production, with the result that the productivity of labor in all industries is constantly increasing and the costs of production are being generally reduced. This is improving the situation of the farmer both as a producer and as a consumer. It is enabling him to lower his own costs and to make his purchases at lower prices. A very substantial gain to him has been realized from these changes and the changes are continuing.

Moreover, the prices which the farmer receives for his products have been tending moderately upward, and now, for most of the staples, are not below the general commodity price level shown by the Bureau of Labor tables. Population has been moving on a moderate scale from the farms to the cities, but in the past year this movement probably has not been in excess of the natural increase of population on the farms.

This is the normal process of readjustment, by the natural distribution of population among the industries, as induced by wages and prices. It is the only method of correcting inequalities of compensation while industry remains free. The alternative is to have the Government tell each person what work he shall do and what pay he shall have for it.

If more people crowd into any industry than are needed, compensation will be low, and if compensation is unduly low in a given industry this is the logical explanation. Evidently more people are not needed in agriculture, and it is not to the advantage of those who expect to remain permanently in the business to have the number increased by artificial inducements. Agriculture must expect to live on the basis of unregulated relationships with the other industries.

The editor of a western farm journal which has been an advocate of the McNary-Haugen bill is quoted as commenting upon the President's veto as follows:

> It is now unmistakably clear that the Coolidge-Hoover program has for its fundamental thesis the reduction of crop acreage and sending more farmers to town.

The McNary-Haugen idea seems to be very like the plan advocated in some quarters for the relief of the coal industry, which is, to-wit: Government regulation to maintain an artificial wage scale high enough to support an excess supply of labor, working not over two-thirds of the time, consumers paying the bill. What a wonderful industrial situation would exist if all the industries were organized and supported by the Government on that basis!

Is There Discrimination Against Agriculture?

It is evident that much of the intensity which was put into the demand for the McNary-Haugen bill and of the resentment expressed over its failure has been due to a belief that the farmer has been unfairly treated, not only in this but as a common experience. He has been told so by many persons who have seemed to be interested in his welfare, and the long campaign for the bill was predicated upon the theory that it would do for him only what had been done by means of various other laws for many other interests. He has been told that he had long been the victim of discrimination, that he never had had a fair share of the national prosperity, that he was looked down upon as entitled to no consideration, that agriculture had been crowded out of first place among the industries and was destined to be of diminishing importance. The latest sample of this propaganda has been that the mighty powers in control were intending to reduce the farmers to a peasantry. If the farmer believed even a small part of it all it would not be strange if he developed an inferiority complex.

Much of this talk is only an expression of excited feeling worked up over the bill. The more serious assertions are often repeated by persons intelligent enough to know better if they bothered to inform themselves, and repeated often enough they make an impression.

In truth there never has been a time when the farmers did not have alert and able champions in Congress, or when that body as a whole was not as sincerely friendly to the farming interest as to any other interest. A great proportion of the votes for the McNary-Haugen bill are known to have been cast by Senators and Representatives who had little or no faith in the measure, but were willing to try it because the farmers were said to want it. Congressman Williams, of Illinois, in a speech in the House on the last day of the late session, said that not more than 50 of the 435 members of that body actually believed in it and that 17 of the 21 members of the Committee on Agriculture were opposed to it at the beginning of the session. Would any other section of the population be treated with such deference; certainly not any having fewer votes.

It is safe to say that more legislation has been passed for the purpose of aiding agriculture than in the interest of any other industry or business. That farming has not profited more by it simply proves the proposition that an industry which is open to every-

body cannot be made more profitable by legislative favors, because the effect of such favors is to induce more people to enter it.

No other industry ever has received such a subsidy as agriculture received through the homestead act, but the effect of it was to increase agricultural production and make low prices for the farm staples. Nevertheless the landowners who held on profited eventually by the rising value of the lands. One of the subjects of present complaint is the decline of land values since 1920 and it is interesting to refer to the census figures for the population of the country and the value of farm lands and buildings since 1900. They are as follows:

	Population	Value of Farm Lands and Buildings
1925	115,378,000	$49,467,000,000
1920	105,711,000	66,316,000,000
1910	91,972,000	34,801,000,000
1900	75,995,000	16,615,000,000

Not much good land remained for free settlement after 1900, and the position of the farmer began to improve. Land values advanced, not only on account of better prices for farm products, but on account of prospective values. Never in the history of the world was there such an enhancement of land values as in the United States from 1900 to 1920. The war, with the abnormal prices for farm products which resulted, capped the climax, the 1920 census reporting all farm lands and buildings at approximately four times the valuation of 1900. Obviously prices were inflated, and the census valuation was made at the peak. Speculation had been rife, and, as in all periods of speculation, much property was held upon small margins, and was allowed to go for the debts. This class of property always depresses market values after a boom has collapsed. Nevertheless, the value of farm lands and buildings in 1925 was 50 per cent higher than in 1910, and three times the value of 1900, although the increase in farm acreage was only about 10 per cent. In view of the great rise in farm lands in this period, and the highly abnormal conditions in the last five years of the period, it is not strange that a decline of prices followed. Conditions had favored agricultural expansion not only in the United States but all over the world, and the prices of farm products were affected in like manner all over the world.

The Reserve and Railroad Acts

The Federal Reserve Act and the Railroad Act of 1920 have been frequently named as precedents for the McNary-Haugen act, but it is hardly possible that anybody upon reflection will regard them as similar. The Reserve act is not an act to increase the earnings of banks, but to provide a national currency system which would more effectually serve the public. Railroad regulation is imposed upon the railroads in the interest of the public, and the act of 1920 was intended simply to give assurance to the investing public that although railroad charges were regulated by governmental authority the roads would be permitted to earn a "fair return" upon actually invested capital. This assurance, however, has been a dead letter, so far as a great part of the railroad mileage was concerned. There is no reason for citing it as favoritism.

The Protective Tariff

The protective tariff is named as another example of favoritism. The tariff question is as old as the Government. There is room for different opinions upon the wisdom of the policy, and especially upon the wisdom of particular schedules, but the policy has not been maintained as favoritism to manufacturers. The farmers have been generally for it over 100 years of our history, in the belief that it would build up a home market and increase the value of their lands, and these objects have been realized beyond all hopes. If farm production has been over-stimulated, this only illustrates that there is another side to all calculations. A good many manufacturers think their industries have been over-stimulated also.

One point should be made clear: The protective tariff was intended to accomplish only one purpose, to-wit: to give the home producers an advantage over the foreign producer in the home market. It was not intended to make profits in the protected industries larger than in other industries, and there is no reason for thinking that they have been larger. As a rule domestic competition in the protected industries is as keen as in other industries and profits no larger. The unprotected lines of business, such as banking, merchandising, house-building, printing, publishing newspapers, etc., are free from foreign competition without tariff protection. We depend wholly upon domestic competition to regulate prices in such industries, and the protected industries also have domestic competition. Whatever the arguments for or against protection may be, there is no issue over comparative profits.

The claim that the protective tariff is of no avail so far as the producers of agricultural products are concerned is incorrect as to numerous products. It is a fact that the farm organizations had more to say in making the existing tariff laws than the representatives of any other interest. Dairy products and live stock, which are of leading importance because most of the feed crops are finally marketed in such forms, are effectively protected. Upon this point we are permitted to make the following extract from a letter dated April 10, 1928, received by the office of Armour & Company, New York, from the commission house

of Leonard & Son, Ltd., Auckland, New Zealand:

We in New Zealand are inclined to think that the United States butter market has not been very kind to us this year. We have sold a good deal less butter this season than we have done in former years. Of course the duty of 12¢ is a tremendous hurdle and we would take it as a friendly act if the duty was brought back to 8¢ as it was before President Coolidge exercised his power to make a fifty per cent increase.

New Zealand continues to buy American hardware, motor cars, and petrol, and we know that the manufacturers in your country look on New Zealand as a good customer, but we can only pay for these goods with wool, mutton, and dairy produce. We find that you have put up a tariff wall against us which makes trade almost impossible.

However, referring back to butter: We have been shipping whenever possible on optional bills of lading, and we have landed some small quantities in New York, but we find that invariably the market drops when a New Zealand ship is close to New York—and your market rises when the New Zealand butter is safely on the way across the Atlantic.

This letter mentions that owing to dry weather and a falling off of production, "sellers in New Zealand have hardened up their prices and will not sell today at less than the equivalent of 37 cents c.i.f. New York." This means that but for the tariff of 12 cents per pound, New Zealand butter would be delivered at New York at 37 cents per pound. Evidently the butter producers of that country are getting much less for butter than are the producers of the United States.

Profits in Business

The idea is persistently propagated that, outside of farming, production and prices are so effectually controlled by agreements and understandings that little real competition exists, and that money-making is reduced to a safe system. Nothing could be farther from the truth. The fact is that there are few industries in which excess capacity does not exist, and that the pressure of competition never was more constant and relentless.

It is well known among business men that although the volume of business has been large in recent years the margins of profit as a rule have been small. Wages have been high, the wage-earning population has been generally employed, the output of the industries has been large and the consumption of necessaries, comforts and luxuries has been on a scale never before known, but it has been satirically called "profitless prosperity." In many instances, certain leaders, low-cost producers, working to capacity and possessing the most approved facilities, have made satisfactory profits, but a great volume of the business has been done with unsatisfactory profits or losses.

There is conclusive evidence of this in the figures produced by the research staff of the National Industrial Conference Board, Inc., which has examined the income returns of all manufacturing corporations for the six years 1920-1925, and reports that in this period two out of every five reporting corporations had no net earnings, and that for every $100 of net earnings made in these years by successful corporations, $32 was lost by unsuccessful ones. We venture that this is a larger proportion of actual losses than agriculture would show.

We have referred heretofore to the state of the cotton goods industry. This industry has been most depressed in New England, where it has suffered from the competition of companies operating in the South at lower labor costs. Even in the South, however, the mills, struggling for full production as a means of reducing costs, are complaining of profitless business. At a convention of the Southern operators, held at Richmond last month, Mr. W. D. Anderson, of the Bibb Manufacturing Company, Georgia, in an address, said:

In every worthwhile cotton mill in this country we are today producing more pounds of goods per spindle, more yards of goods per loom, and a greater production per operative in the mill, than ever in the history of our industry. In spite of curtailment in our operations which began in December and has gradually increased since that time the monthly figures on consumption of cotton indicate the tremendous production that continues to pour out of our mills. We are producing, with curtailment, more goods than we used to produce with the same machinery running at full speed. Consider the result. As a nation we are rich beyond our dreams. Conditions throughout this country are fundamentally sound. Conditions elsewhere in the world have been gradually improved. The purchasing power of the population of the United States and possibly of the world, is greater than ever before, and, excepting the period of the war, the consumption of textiles the world over, is greater than ever we have known.

In spite of all these things, we cannot find a market for our product at prices that will yield a living profit. In fact it is difficult to move our production at any price.

The condition of the bituminous coal industry has been referred to repeatedly in these columns, and we need not repeat the details. We would simply emphasize that over-development has the same results whether it occurs in agriculture or other industries, and if in one case it is harsh to say that the industry must find its own remedy it is equally harsh in other cases.

The Consolidation Coal Company has issued an open letter to the industry, in which it announced that it has determined upon the policy of closing for an indefinite period some of its least efficient mines and will concentrate its operations in the most economical properties. It says:

The Consolidation Coal Company believes that the present plight of the bituminous coal industry will not be remedied by forcing unwanted coal upon an unwilling market. It sees no relief, either to the industry or to any producing company, by cutting prices below a level that permits a mine to remain in production with its natural overhead unabsorbed in its average realization.

The Consolidation Coal Company believes that no present useful purpose nor any contribution to future stability is to be gained by further cutting wages below a sound economic level. Whatever may be the temporary relation of labor costs to selling prices, it holds that the primary object of both mine labor and

mine management must be the most regular work-time possible under a proper wage base.

Holding, as it does, these beliefs, the Company is attempting to bring both its marketing and operating policies into line with what it conceives to be a constructive economic basis. To that end it is closing for an indefinite period some of the least efficient mines, and consequently must dispense with the services of a considerable number of valued and loyal employees.

The Company is confident that the elimination of these mines will not only be to the advantage of the industry at this time, but that the greater concentration, thus enforced, will yield benefits to the labor remaining and to the Company as a whole.

On the other hand, it is recognized equally that there would be a loss to the industry if many of the experienced employees, thus displaced through no fault of their own or by any dissatisfaction with their services, were unable to continue in bituminous coal.

The Company has, therefore, taken this opportunity to give to its fellow producers a frank statement of the policy thus adopted. Further, in behalf of any former employees seeking affiliation elsewhere in the industry, it wishes earnestly to bespeak all proper consideration and courtesy for their applications arising out of this action.

The iron and steel industry has been frequently represented as closely organized and having production and prices under effective control. It is known, however, to all in touch with industry, that notwithstanding the expenditure of hundreds of millions of dollars since 1920 for reduction of costs, the producers have been compelled by competition to pass over practically all of the savings to the public through lower prices. Mr. Charles M. Schwab, Chairman of the Bethlehem Steel Corporation, stated in his last annual report to stockholders that from 1923 to 1927 the Corporation had expended over $150,000,000 to effect economies, and as a result had actually accomplished an average reduction of $7.27 per ton upon its production in 1927 as compared with 1923, but without increasing its net income. Mr. Schwab has made the statement recently that current profits in the iron and steel industry as a whole were not equal to savings bank interest on invested capital, and there is an abundance of evidence to support it.

The production of metals and metal products has been for a long time an industry largely in the hands of large companies, and therefore comparatively few in number. This situation is generally thought favorable to price control, but according to the Bureau of Labor price tables for April, 1928, the group known as "Metals and Metal Products" averaged for that month 25 per cent above their average level in 1913, while the group known as "Farm Products" averaged 53 per cent above their average level in 1913.

The three industries above named, cotton goods, coal, iron and steel, are high up among the industries of the country in the amount of capital and number of wage-earners employed, and they illustrate the general state of industry as to competition. Everywhere strenuous efforts are being made, with large expenditures of borrowed capital, to reduce costs, with the result that costs indeed are reduced but passed on to the public. The railroad industry has made a wonderful showing of gains by operating economies, but net earnings do not reach the "fair return," named by the Interstate Commission, to-wit: 5¾ per cent upon the aggregate of invested capital. It is needless to say that there is competition in the automobile industry. The oil industry has been struggling with over-production constantly since 1920, and the producing companies show low returns upon invested capital. The discussion might be greatly extended but our space does not permit, and the review of the income returns of all companies engaged in manufacturing, referred to above, makes further details unnecessary.

Gold Production and Reserves

On account of the reestablishment of nearly all the world's monetary systems on the gold basis and the manifest desire of many countries to increase their reserves, more than usual interest attaches to current gold production. Estimates for 1927 so far as available indicate but little change in the aggregate from 1926. The Transvaal, which is producing a little more than one-half of the world's new supplies, made a new record, and Canada shows a moderate increase, but declines elsewhere about offset these gains.

The following table shows the production of the principal countries and of the world in 1915, the high record year of all time, and in 1926 and 1927. The United States and Australia have suffered most by the increase of mining costs.

WORLD GOLD PRODUCTION

	1915	1926	1927
United States	$101,036,000	$ 46,276,000	$ 45,027,000
Canada	18,978,000	36,263,000	37,731,000
Mexico	6,559,000	15,972,000	14,989,000
South America	15,088,000	9,975,000	data not available
Russia	26,323,000	20,510,000	data not available
Australia	48,988,000	13,509,000	13,140,000
British India	11,522,000	7,937,000	7,985,000
Transvaal	188,033,000	205,783,000	209,251,000
Rhodesia	18,915,000	12,283,000	12,019,000
All Other	33,283,000	30,049,000	data not available
Totals	$468,725,000	$398,557,000	$399,053,000

Sources: 1915 and 1926, Bureau of the Mint, U. S. Treasury; 1927, official estimates of the several countries reported, and total by S. Montague & Co., London.

Of the South African production in 1927 about $130,000,000 was shipped to London, $30,000,000 direct to Argentina, $5,000,000 to Brazil and smaller amounts elsewhere.

Total imports of gold into Great Britain in the year were about $158,000,000, and total exports from that country about $138,000,000. The Bank of England's reserve increased a little more than $6,000,000 and about $10,000,000 was taken for the Indian reserve in London.

The April number of the Federal Reserve Bulletin, as in previous years, contains a compilation of the gold holdings of Central Banks of issue and Government treasuries at the close of the preceding year. The total thus held in forty countries on December 31, 1927 was $9,203,597,000, against $9,148,432,000 on December 31, 1926, the principal changes being as follows:

CHANGES IN GOLD HOLDINGS OF CENTRAL BANKS AND GOVERNMENTS

(In millions of dollars)

Country	Holdings at end of year 1926	1927	Changes during 1927
Countries in which holdings decreased:			
United States	4,083	3,977	106
Japan	562	542	20
Java	79	72	7
Denmark	56	49	7
Canada	158	152	6
Netherlands	166	161	5
6 other countries showing decrease	887	879	8
Total decrease			159
Countries in which holdings increased:			
Brazil	56	101	45
Poland	27	58	31
Argentina	436	461	25
Italy	221	239	18
Belgium	86	100	14
Russia	85	97	12
India	109	119	10
Switzerland	91	100	9
Spain	493	502	9
Germany	436	444	8
England	735	742	7
Austria	7	12	5
28 other countries showing increase	374	396	22
Total increase			214

The net increase as shown by this table is $55,000,000 but the Bulletin gives a supplementary statement of holdings in other banks, which includes $79,000,000 in Argentina, $75,000,000 in Canada, $125,000,000 in Australia and $17,000,000 in the United States. Including the known increases in these institutions the aggregate net increase in reserves in 1927 is estimated at approximately $300,000,000. An important factor in this increase was the release of $90,000,000 which had been pledged by the Bank of France to the Bank of England to secure a loan of some years' standing. This gold had not figured in the reserves of either institution. Of the large importations by Argentina only about $25,000,000 went into the Government Conversion Fund, which is the source of currency issues. The Banco de la Nation showed an increase in its holdings of $54,000,000. A sum approximating $86,000,000 has been added to the stock of Argentina since the beginning of 1928.

Although the aggregate holdings of the United States Treasury and Federal Reserve banks decreased by $106,000,000, they remained at approximately 43 per cent of the reported holdings of the 40 countries. Heavy reductions upon this have been made since the beginning of 1928.

Although France appears from the table to have suffered a slight loss during the year, the Bank of France actually came into control of a large amount of ear-marked gold and gold credits in other countries, which at the end of the year had not been formally taken up in its reserves. Transfers of gold to France from the United States since January 1, 1928, have aggregated about $177,000,000.

The net importation of gold into India in 1927 was about $60,000,000, a small absorption for that country.

John Hays Hammond on Gold Production

Mr. John Hays Hammond, the eminent mining engineer, contributed an article upon gold production to the February number of the "Nation's Business," in which he reviews the prospects for gold production over the world, and sums up as follows:

The United States reached the maximum in its gold production when it yielded $101,000,000 in 1915. Ten years later that production had run down to scarcely more than half that amount, $52,000,000. It is generally conceded that the palmy days of gold production in the United States are past. The great mass of her production has been placer, and these deposits have been pretty well worked out. The United States will produce less gold in the future than in the past.

It has long been the habit to look hopefully to Mexico as a source of gold, but that country has contributed little of the yellow metal. Her great wealth in precious metals has, in the past, been in silver and in the future will probably be the same.

South America has been quite thoroughly prospected and has yielded comparatively little gold. It is not regarded as having important gold prospects.

Australia, like the United States, is admitted to have passed its zenith. Its production of the future is not likely to approach that of its past.

The Rand, time and again the yielder of about half the annual gold of the world, is a limited area that has, for decades, been very intensively mined. Its huge production has been holding its own but can hardly be expected to continue to do so. The mining is now being done at great depths. The falling off in the Rand is likely to be sharp and material in the next few years.

A bright spot on the gold map lies in Canada. In half a dozen years beginning with 1920, Canadian production increased gradually from $15,000,000 a year to $35,000,000. These amounts are not so large as to have a great effect on world markets but indicate possibilities.

Siberia is probably the most promising of the potential gold fields. For a long time before Russian conditions grew chaotic that region yielded from $20,000,000 to $30,000,000 a year. The region around Lena, Siberia, is most promising. When stable government is reestablished this part of the world may respond to development.

Generally speaking, however, gold in any region yields itself up most readily and abundantly when that region is new. Gold rushes die out; gold yields fall off. One section after another follows the United States and Australia into a decline. New fields are being found with less frequency. The easy gold of the world has largely been produced. Most of that which is to follow will be from low-grade gravels and ore lying at greater depths. The gold of the future, I believe, will come forth laboriously and more slowly than in the past. It seems to me that it would be safest to figure money conditions of the future on this hypothesis.

100